



BEFORE THE ARIZONA CORPORATION COMMISSION

LEA MÁRQUEZ PETERSON

Chairwoman

SANDRA D. KENNEDY

Commissioner

JUSTIN OLSON

Commissioner

ANNA TOVAR

Commissioner

JIM O'CONNOR

Commissioner

IN THE MATTER OF THE APPLICATION  
OF TUCSON ELECTRIC POWER  
COMPANY FOR THE ESTABLISHMENT  
OF JUST AND REASONABLE RATES AND  
CHARGES DESIGNED TO REALIZE A  
REASONABLE RATE OF RETURN ON  
THE FAIR VALUE OF THE PROPERTIES  
OF TUCSON ELECTRIC POWER  
COMPANY DEVOTED TO ITS  
OPERATIONS THROUGHOUT THE STATE  
OF ARIZONA AND FOR RELATED  
APPROVALS.

DOCKET NO. E-01933A-19-0028

DECISION NO. 77960

ORDER

**APPLICATION FOR  
AUTHORIZATION FOR ANNUAL  
PURCHASED POWER AND FUEL  
ADJUSTMENT CLAUSE ("PPFAC")  
RATE ADJUSTMENT**

Open Meeting  
March 23 and 24, 2021  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Tucson Electric Power Company ("TEP" or "Company") is engaged in providing electric power within portions of Arizona pursuant to authority granted by the Arizona Corporation Commission ("Commission" or "ACC").

**Background**

2. On February 1, 2021, TEP filed its updated calculations and a request for authorization for a Purchased Power and Fuel Adjustment Clause ("PPFAC") rate adjustment in accordance with the PPFAC Plan of Administration ("POA"). The current PPFAC rate, approved in Decision No. 77592 dated March 31, 2020, is \$0.001515 per kilowatt-hour ("kWh").

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Arizona Corporation Commission

**DOCKETED**

APR 15 2021

**DOCKETED BY**

1 The Company is proposing to set the PPFAC rate at \$0.004811 per kWh for the period April 1,  
2 2021, through March 31, 2022.

3 3. The PPFAC rate consists of a Forward Component and a True-up Component. The  
4 Forward Component consists of the forecasted fuel and purchased power costs for the year, usually  
5 commencing on April 1 and ending on March 31 of the following year, less the per-kWh average  
6 base rate of \$0.032559 per kWh, approved in Decision No. 75975, and an average base rate of  
7 \$0.029862 per kWh approved in Decision No. 77856. The True-up Component is a reconciliation  
8 of any over- or under-recovered amounts from the preceding PPFAC year to be credited to, or  
9 recovered from, customers in the following PPFAC year.

#### 10 **Staff Analysis and Recommendations**

11 4. In its 2020 PPFAC reset filing, the Company deferred approximately \$12.5 million  
12 of costs related to the closure of the mine that provided fuel for the Navajo Generating Station and  
13 proposed to include those costs in its 2021 PPFAC reset filing. During the March 24, 2020, Open  
14 Meeting (Decision No. 77592), the Commission decided it was in the public interest to also delay  
15 the implementation of the 2020 PPFAC reset from April 1, 2020, to June 1, 2020, due to the  
16 COVID-19 pandemic. As a result, the Company's PPFAC balance remains under-collected by  
17 \$27 million:

Description	Amount
2020 PPFAC Rate Delay (April 1 to June 1)	\$7.5 million
2020 PPFAC Mine Closure Cost Deferral	\$12.5 million
2020 Impact of COVID-19 and Weather on Forecast	\$7.0 million
<b>Total Under-collected PPFAC Bank Balance</b>	<b>\$27.0 million</b>

2021 PPFAC Rate Calculation

5. The current and proposed PPFAC component rates are shown in the table below.

**TEP Proposed PPFAC Rate Calculation (\$/kWh)**

PPFAC Rate Calculation	Current Rate (6/1/20)	Proposed Rate (4/1/21)	Change
Forward Component Rate	(\$0.002289)	\$0.001778	\$0.004067
True-up Component Rate	\$0.003804	\$0.003033	(\$0.000771)
PPFAC Rate	\$0.001515	\$0.004811	\$0.003296

6. Based on an average residential usage of 844 kWh, the proposed PPFAC rate would increase average residential bills by \$2.78 per month from the existing surcharge of \$1.28 per month. For the average residential customer, the proposed PPFAC rate would appear as a \$4.06 surcharge per month (844 kWh x \$0.004811 per kWh).

7. Due to the COVID-19 pandemic, the Company provided the Commission with two additional options to help mitigate the bill impact for its customers. Option 1 would delay the implementation of the new PPFAC rate from April 1, 2021, to June 1, 2021. Option 2 includes the same two-month delay including only \$13.5 million of the under collected-balance and defers 50 percent of the \$27 million under-collected bank balance (\$13.5 million plus interest) until the Company's 2022 PPFAC reset. The options are summarized in the table below. Staff has reviewed the forecast and calculations provided by the Company and found them to be reasonable.

	POA	Option 1	Option 2
Implementation Date	April 1, 2021	June 1, 2021	June 1, 2021
PPFAC Rate	\$0.004811	\$0.004811	\$0.003294
Average Residential Bill Impact	\$2.78	\$2.75	\$1.48
Projected 2021 Under-Collected Balance	\$0.2 million	\$4.5 million	\$15.9 million
Projected Average Residential Bill Impact to 2022 PPFAC Reset	\$0	\$0.50	\$1.51

8. If the implementation of the 2021 PPFAC rate is delayed or not set to recover the full costs of fuel and purchased power, those costs are simply shifted into the following year's balance, resulting in a higher PPFAC rate in 2022. Nevertheless, the pandemic has posed an

unprecedented challenge for ratepayers and Staff believes that Option 2 best serves the public interest. Option 2, as proposed by the Company, delays the implementation of the higher PPFAC rate until the approved COVID-19 vaccines are expected to be more widely available, allowing for the lifting of restrictions on economic activity as a result of the pandemic and an improvement in the economic climate. Furthermore, this option allows the PPFAC to increase in a more gradual manner, making it easier for residential ratepayers to budget accordingly.

9. Staff recommends the Forward Component rate be set at \$0.001778 per kWh, and the True-up Component rate be set at \$0.001516 per kWh, resulting in a PPFAC rate of \$0.003294 per kWh, effective June 1, 2021. Staff's recommended PPFAC rate calculation is shown below.

**Staff-Recommended PPFAC Rate Calculation**

<b>PPFAC Rate Calculation</b>	<b>Current Rate (6/1/20)</b>	<b>Proposed Rate (6/1/21)</b>	<b>Change</b>
Forward Component Rate	(\$0.002289)	\$0.001778	\$0.004067
True-up Component Rate	\$0.003804	\$0.001516	(\$0.002288)
PPFAC Rate	\$0.001515	\$0.003294	\$0.001779

10. Staff recommends that TEP file in Docket Control a revised Statement of Charges consistent with the Decision in this case within 30 days of the effective date of the Decision.

CONCLUSIONS OF LAW

1. Tucson Electric Power Company is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

2. The Commission has jurisdiction over Tucson Electric Power Company and the subject matter of the application.

3. The Commission, having reviewed the application and Staff's Memorandum dated March 11, 2021, concludes that it is in the public interest to reset the Purchased Power and Fuel Adjustment Clause as discussed herein.

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ORDER

IT IS THEREFORE ORDERED that the proposed change in the Purchased Power and Fuel Adjustment Clause rate to \$0.003294 per kWh is hereby approved.

IT IS FURTHER ORDERED that the new Purchased Power and Fuel Adjustment Clause rate shall go into effect June 1, 2021.

IT IS FURTHER ORDERED that Tucson Electric Power Company file in Docket Control a revised Statement of Charges consistent with the Decision in this case within 30 days of the effective date of the Decision.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

**BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**  
CHAIRWOMAN MÁRQUEZ PETERSON  
COMMISSIONER KENNEDY  
COMMISSIONER OLSON  
COMMISSIONER TOVAR  
COMMISSIONER O'CONNOR

IN WITNESS WHEREOF, I, MATTHEW J. NEUBERT, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 15<sup>th</sup> day of April, 2021.

  
MATTHEW J. NEUBERT  
EXECUTIVE DIRECTOR

DISSENT: \_\_\_\_\_

DISSENT: \_\_\_\_\_

EOA:PWM:cj/PRP

77960

Decision No. \_\_\_\_\_

Tucson Electric Power Company  
Docket Nos. E-01933A-19-0028

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